

Message Text

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ACTION STR-07

INFO OCT-01 ARA-10 IO-13 ISO-00 STRE-00 EB-08 COME-00
ITC-01 L-03 H-01 AGR-01 SS-15 CIAE-00 INR-10
NSAE-00 SP-02 TRSE-00 OMB-01 FRB-03 CEA-01 /077 W
-----016787 092328Z /66

P 091820Z AUG 78
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 3070
INFO AMEMBASSY BRASILIA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 01 OF 04 GENEVA 12235

USMTN

ACTION STR FOR HUGHES, LANDE

STR PASS CODEL

E.O. 11652, N/A
TAGS: ETRD, MTN, BR
SUBJECT: STATUS OF U.S./BRAZIL TARIFF NEGOTIATIONS

REF: (A) GENEVA 9537, (B) TPSC 78-92, (C) GENEVA 9103

1. SUMMARY. BILATERAL SESSIONS DURING JULY CONFIRMED
THAT U.S./BRAZIL TARIFF NEGOTIATIONS HAVE REACHED AN
IMPASSE, PRIMARILY BECAUSE (FROM U.S. PERSPECTIVE)
BRAZIL IS OFFERING VIRTUALLY NOTHING IN THE AGRICULTURAL
SECTOR AND U.S. IS ASKING TOO MUCH IN INDUSTRIAL SECTOR
IN RETURN FOR U.S. OFFER WHICH (FROM BRAZILIAN PERSPECTIVE)
HAS NO SIGNIFICANT TRADE-CREATING BENEFITS FOR BRAZIL.
WE RECOGNIZE REAL CONSTRAINTS PLACED ON WASHINGTON
AGENCIES BY ISACS/ATACS BRAZIL BUT BELIEVE
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MORE REALISTIC ASSESSMENT OF OUR OFFER MUST BE MADE IF WE
ARE TO ACHIEVE SETTLEMENT WITH BRAZIL. ACTION REQUESTED:
REASSESSMENT BY SEPTEMBER 1 OF BRAZILIAN AND U.S. OFFERS
IN LIGHT OF CURRENT REQUESTS, WITH AUTHORIZATION OF
MORE FLEXIBLE U.S. NEGOTIATING POSITION IF BRAZIL CAN
IMPROVE THE QUALITY OF ITS INDUSTRIAL OFFER AND COME UP
WITH AGRICULTURAL OFFERS OF REAL SIGNIFICANCE IN EARLY

SEPTEMBER. END SUMMARY.

2. U.S. DEL (HARTZELL AND/OR GRAEF ET AL) MET WITH BRAZILIAN DEL ON JULY 5, 11, 18, AND 21 TO PRESENT U.S. RESPONSE TO BRAZILIAN TARIFF OFFERS AND CONTINUE DIALOGUE ON NECESSARY ELEMENTS OF A SUCCESSFUL BILATERAL TARIFF PACKAGE. BRAZILIANS WERE TAKEN ABACK BY OUR ACCEPTANCE OF ONLY THREE OF THEIR INDUSTRIAL OFFERS (WHICH THEY CHARACTERIZED AS "REJECTION OF THEIR OTHER OFFERS) AND ADOPTED PROGRESSIVELY GLOOMIER ATTITUDE ON THE TARIFF NEGOTIATIONS DURING THE REST OF THE MONTH. FIRST SESSION DEVOTED TO FORCEFUL PRESENTATION OF POINTS IN REF B, AND REITERATION OF ASSESSMENT MADE BY MTN DEL IN REF C. BRAZILIANS WERE OBVIOUSLY STARTLED AT WASHINGTON'S "EXTREME DISAPPOINTMENT" WITH THEIR OFFER AND INDICATED THEY WOULD STUDY OUR PRIORITY REQUESTS; THEY CLAIMED HOWEVER THAT INITIAL BRAZILIAN OFFER WAS ALREADY "STRETCHED" AND WERE DISMAYED AT THE NUMBER OF REQUESTS IN CHAPTERS 84-85 WHICH HAD ALREADY BEEN IDENTIFIED BY THEM AS HIGHLY SENSITIVE AREAS. U.S. DEL ALSO STRESSED VIRTUAL NON-EXISTENCE OF BRAZILIAN OFFERS ON THE AGRICULTURE SIDE. (COMMENT: BRAZIL DEL HAS TENTATIVELY CONCLUDED THAT LIMITED IMPROVEMENTS IN THEIR OFFER WOULD BE OF LITTLE HELP BECAUSE WE HAVE ONLY ACCEPTED EXTREME OFFERS FROM THEM (BINDINGS BELOW 15) WHILE PASSING OVER, E.G., BINDINGS OFFERED AT 30. THEY LIMITED OFFICIAL USE

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ARE NOT ABLE TO SEE AN OUTLINE OF WHAT WE WILL ACCEPT THAT IS IN THE BALLPARK OF THEIR MANDATE. END COMMENT.)

3. BRAZILIANS SOUGHT TO TAKE THE OFFENSIVE BY PRESSING FOR U.S. IMPROVEMENTS IN RESPONSE TO UNSATISFIED BRAZILIAN REQUESTS. WE COUNTERED THAT PROSPECTS FOR IMPROVEMENT WERE REMOTE IN LIGHT OF BRAZIL'S OFFER AND REFUSED EVEN PERSONAL ASSESSMENT UNTIL THEY MADE AN EFFORT IN AGRICULTURAL SECTOR. WE WOULD HAVE TROUBLE IN JUST HOLDING THE LINE.

4. SECOND AND SUBSEQUENT MEETINGS BECAME LESS AND LESS PRODUCT-SPECIFIC, AND FOCUSED MORE ON METHODOLOGY OF NEGOTIATIONS, CONSTRAINTS FACED BY BOTH SIDES IN IMPROVING THEIR OFFERS, EXPLANATIONS OF WHY CURRENT OFFERS WERE PERCEIVED AS INADEQUATE, AND ENDLESS DISCUSSIONS OF WHO SHOULD MAKE THE NEXT MOVE IN ORDER TO GET NEGOTIATIONS OFF DEAD CENTER. BRAZILIANS RETURNED TO SEVERAL FAMILIAR THEMES, INCLUDING THEIR INABILITY TO OFFER TARIFF REDUCTIONS OR BINDINGS ON ITEMS ASSOCIATED WITH THEIR AGGRESSIVE INDUSTRIALIZATION (READ IMPORT SUBSTITUTION) PROGRAMS, AND THEIR CONTINUING BALANCE OF PAYMENTS AND FOREIGN EXCHANGE CONSTRAINTS. ON THE EXPORT SIDE, BRAZILIANS STRESSED THEIR DIFFICULTY

IN IDENTIFYING CLEARLY WHICH, IF ANY, TARIFF REDUCTIONS
BY FOREIGN TRADING PARTNERS WOULD GENERATE INCREASED
BRAZILIAN EXPORTS.

5. LATTER POINT WAS DEVELOPED AT SOME LENGTH AS
BRAZILIANS ARGUED THAT TARIFF REDUCTIONS INVOLVING ONLY
A FEW PERCENTAGE POINTS DO NOT ATTRACT THE ATTENTION OF
BRAZILIAN BUSINESSMEN OR MUSTER THEIR SUPPORT FOR SUB-
STANTIAL BRAZILIAN CONCESSIONS ON THE IMPORT SIDE.
BRAZILIANS HAVE CLAIMED ON SEVERAL OCCASIONS THAT FOREIGN
TARIFF REDUCTIONS MUST BE OF AT LEAST, E.G., 10 PER-

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TO SECSTATE WASHDC PRIORITY 3071
INFO AMEMBASSY BRASILIA
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C O R R E C T E D C O P Y TEXT (DELETE FIRST TWO LINES OF
DUPLICATED TEXT)

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CENTAGE POINTS OR MORE, TO BE PERCEIVED DOMESTICALLY AS
OF REAL VALUE TO BRAZIL'S EXPORT INTERESTS. THEY NOTED
THAT VERY FEW, IF ANY, OF U.S. OFFERS CORRESPONDING TO
THEIR REQUESTS FELL IN THIS CATEGORY, WHICH LEFT BRAZIL
DEL IN POSITION OF HAVING TO EXPLAIN TO HOMEFRONT WHY
IT SHOULD PAY FOR NUMEROUS SMALL DUTY REDUCTIONS IN
U.S. TARIFFS, ADMITTEDLY ACROSS A WIDE RANGE OF TRADE,

BY MAKING SUBSTANTIAL REDUCTIONS IN SOME (HIGH) BRAZILIAN DUTIES EVEN THOUGH LIMITED TO A MUCH NARROWER RANGE OF PRODUCTS. U.S. COUNTER ARGUMENTS WHICH INCLUDED STAGING, EXPLANATIONS OF THE IMPORTANCE OF MFN REDUCTIONS, AND NEED TO REDUCE DISPARITIES IN OUR TRADE REGIMES FOR LIMITED OFFICIAL USE

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SECTORS WHERE BRAZIL WAS EXPORT ORIENTED FELL ON DEAF EARS.

6. BRAZILIANS STRESSED THEIR DIFFICULTY IN IDENTIFYING ITEMS ON WHICH TO CONCENTRATE THEIR REQUESTS, GIVEN THAT BRAZIL'S EXPORT PATTERN (STRUCTURE) IS EVOLVING CONSTANTLY AND VALUE TO IT OF A GIVEN CONCESSION MAY ALTER CONSIDERABLY OVER A RELATIVELY SHORT TIME. THEY NOTED THAT THE BULK OF BRAZILIAN REQUESTS TO U.S. WERE CONCENTRATED IN 5 PRODUCT AREAS (SOLUBLE COFFEE, SHOES, CORNED BEEF, TOBACCO, AND ORANGE JUICE), AND ONLY 2 OF THESE WERE COVERED BY NON-CONDITIONAL U.S. OFFERS. AT THE SAME TIME U.S. WAS PRESSING FOR VERY SUBSTANTIAL REDUCTIONS IN CLOSE TO 100 HIGH AND MEDIUM BRAZILIAN DUTIES, WITH BINDINGS; POSSIBILITY OF EVEN MARGINAL CHANGES IN THOSE DUTIES WAS PROVOKING VIOLENT INTERNAL DEBATE AND CLOSE STUDY OF IMPACT ON DEVELOPMENT POLICIES AND PROGRAMS.

7. U.S. RESPONDED THAT BULK OF BRAZILIAN OFFER WAS FOCUSED ON BINDINGS AT RATES CONSIDERED HIGH EVEN BY THEM, RATHER THAN REDUCTIONS, AND FLATLY DOUBTED WHETHER BRAZILIANS HAD EXHAUSTED THEIR POSSIBILITIES FOR FURTHER REDUCTIONS AND/OR BINDINGS AT LOWER LEVELS. WE NOTED PARTICULARLY THE BRAZILIAN NON-OFFER ON AGRICULTURAL PRODUCTS AND REPEATEDLY STRESSED NEED FOR OVERALL BALANCE IN THE TWO SIDES' RESPECTIVE OFFERS IN ANY SETTLEMENT PACKAGE. IF SOME GENUINE POSSIBILITIES ON THE AGRICULTURAL SIDE COULD NOT BE PRESENTED BY BRAZIL AT AN EARLY DATE, THERE WAS EVERY PROSPECT THAT OUR OFFER ON BRAZILIAN-INTEREST ITEMS INCLUDING INDUSTRIAL PRODUCTS WOULD BE SUBSTANTIALLY CURTAILED.

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8. AFTER SEVERAL REPLAYS OF ABOVE DISCUSSIONS, BOTAFOGO APPEALED FOR IDEAS AS TO HOW NEGOTIATIONS MIGHT BE REJUVENATED. WE SUGGESTED QUALITY INDUSTRIAL OFFERS AND SOME REAL AGRICULTURAL OFFERS FROM BRAZIL WOULD BE

HELPFUL; HE COUNTERED THAT IMPROVEMENTS OR CLARIFICATIONS IN U.S. OFFERS COULD ALSO IMPROVE THE ATTITUDE IN BRASILIA. HE SUGGESTED IT WOULD BE NECESSARY TO DEVELOP A BILATERAL ACCOUNTING OF REQUESTS AND RESPONSES TO REQUESTS (I.E., EXCLUDING UNSOLICITED OFFERS) TO CONVINCE BOTH SIDES THEY WERE GETTING A DECENT DEAL. LIKE THE U.S. (SEE REF B), BRAZIL HAD NO REAL INTEREST IN OFFERS IT HAD NOT REQUESTED, DIDN'T SEE NEED TO PAY FOR THEM NOR WOULD IT BE TROUBLED IF THEY WERE WITHDRAWN. WITH STATED INTENTION OF STIMULATING SOME FURTHER MOVEMENT, HE PROVIDED US FOLLOWING LIST OF ADDITIONAL PRODUCTS ON WHICH BRAZIL COULD ENVISAGE SOME CONCESSION BUT DID NOT SUPPLY DETAILS OF EITHER PRESENT RATES OR POSSIBLE OFFERS.

NBM	PRODUCT
-----	---------

37.03.02.00	SENSITIZED PAPER, PAPERBOARD AND CLOTH, UNEXPOSED OR EXPOSED BUT NOT DEVELOPED, FOR COLORED PICTURES
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884.45.50.00	OTHER BROACHING MACHINES
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85.25.01.02	SUSPENSION INSULATORS, OF CERAMIC MATERIALS
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90.24.04.00	THERMOSTATS:
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02	THERMOSTATS OPERATED BY THE VAPOUR
-	PRESSURE OR EXPANSION OF A LIQUID FOR
-	USE IN REFRIGERATING OR AIR CONDITIONING,
-	FOR TEMPERATURE OF LESS THAN 50 DEGREES

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ITC-01 L-03 H-01 SS-15 CIAE-00 INR-10 NSAE-00
SP-02 TRSE-00 OMB-01 FRB-03 CEA-01 AGR-01 /077 W
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FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 3072
INFO AMEMBASSY BRASILIA
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ACTION STR FOR HUGHES, LANDE

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99 OTHER THERMOSTATS

90.28.03.00 APPARATUS FOR MEASURING RADIO-ACTIVITY
(GEIGER COUNTERS AND THE LIKE)

90.28.09.00 COLORIMETERS, PHOTOMETERS AND SPECTRO-
PHOTOMETERS -

90.28.10.00 SPECTROMETERS, SPECTROSCOPES AND
SPECTROGRAPHS

98.28.13.00 SETS FOR TESTING ELECTRICAL QUANTITIES
(MULTIMETERS AND THE LIKE)

(FYI: WE NOTE THAT 3 OF THE 9 ITEMS ARE ON THE REF B
"CRITICAL INTEREST" LIST AND 3 MORE ARE ON THE "PRIORITY
INTEREST" LIST; BRAZILIAN GENEVA DEL TELLS US IT THINKS
SPECIFIC OFFERS ON THESE WILL BE FORTHCOMING IN EARLY
SEPTEMBER. LOCAL DEL ALSO THINKS IT IS LIKELY THAT
THERE WILL BE SOME BRAZILIAN AG OFFERS IN EARLY
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SEPTEMBER (POSSIBLY INCLUDING TURKEY AND TURKEY PARTS)
BUT NOT WITHOUT GREAT STRAIN AND INTERNAL DEBATE IN THE
MEANTIME. END FYI.)

9. COMMENT AND ASSESSMENT. WHILE LISTS OF U.S. EXPORT
INTERESTS IN BRAZIL AND OBJECTIONABLE BRAZILIAN TRADE
POLICIES ARE VERY LONG, MTN DEL BELIEVES BRAZILIANS HAVE
MADE RESPECTABLE HEADWAY TOWARD PRESENTING A TOLERABLE
TARIFF OFFER, BOTH IN COMPARISON TO THE VALUE OF OUR
OFFER TO THEM (WHICH WAS AMONG THE LOWEST TO ANY MAJOR
LDC IN TERMS OF AVERAGE DUTY REDUCTION) AND COMPARED
TO WHAT WE ARE SEEKING FROM OTHER LDCS IN THE MTN. THIS
IS NOT TO SAY THAT THEY CANNOT AND SHOULD NOT DO MORE
ON THE INDUSTRIAL SIDE OR THAT THEY SHOULD BE LET OFF
THE HOOK ON AGRICULTURE; NEVERTHELESS WITHIN PRESENT
GUIDELINES WE FIND OURSELVES FORCED TO TAKE EXAGGERATED
POSITIONS ON THE VALUE OF OUR OFFER TO THEM AND THE
INSUFFICIENCY OF THEIRS TO US. TO SUMMARIZE THE
SITUATION ON BILATERAL REQUESTS AND RESPONSES THERETO :

A. WE ARE RESPONDING TO 25 OF 45 REQUESTS (INDUSTRY
AND AGRICULTURE) MADE BY BRAZIL, COVERING \$276
MILLION IN TRADE (OF WHICH \$122 MILLION--OVER 40--

REPRESENTS OUR OFFER TO BIND THE CURRENT ZERO DUTY ON SOLUBLE COFFEE; THE REMAINING ITEMS HAVE A TRADE VALUE OF ABOUT \$155 MILLION). TWO OF THOSE 25 ITEMS INVOLVE DUTY CUTS OF 10 PERCENTAGE POINTS OR MORE AND 5 OTHERS, CUTS OF BETWEEN 5 AND 10 PERCENTAGE POINTS;THE REST,UNDER 5 PERCENTAGE POINTS.

B. BRAZIL HAS RESPONDED TO OUR REQUESTS ON 135 ITEMS WITH OFFERS ON 50 (WITH A TRADE VALUE OF APPROXIMATELY \$81 MILLION), WITH REDUCTIONS RANGING LIMITED OFFICIAL USE

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FROM 5 TO 17 PERCENTAGE POINTS ON 15 ITEMS AND BINDINGS AT EXISTING OR CEILING RATES ON 35 ITEMS.

C. WE HAVE ARGUED THAT A LARGE PORTION OF THE VALUE OF THE GLOBAL U.S. OFFER TO BRAZIL IS IN THOSE AREAS WHERE BRAZIL HAS MADE NO REQUEST BUT HAS SOME CURRENT TRADE : ADDITIONAL OFFERS ON 727 LINE ITEMS, REPRESENTING AN ADDITIONAL \$260 MILLION IN TRADE, WHERE FOR THE MOST PART BRAZIL IS NOT THE PRINCIPAL SUPPLIER. (ABOUT 100 OF THESE LINE ITEMS, COVERING ABOUT \$3 MILLION IN TRADE, INVOLVE DUTY REDUCTIONS OF 10 PERCENTAGE POINTS OR MORE; PRESUMABLY, HOWEVER, THEY WOULD BE OF AS MUCH OR MORE BENEFIT TO SUPPLIERS OTHER THAN BRAZIL.) CURRENT SITUATION APPEARS TO BE UNFORTUNATE BUT UNAVOIDABLE RESULT OF TRYING TO NEGOTIATE FORMULA OFFER BY A LOW-DUTY COUNTRY AGAINST A PRODUCT-SPECIFIC OFFER BY A HIGH-DUTY COUNTRY.

D. IN TERMS OF TRADE COVERAGE, BOTH SIDES' INDUSTRIAL OFFERS IN RESPONSE TO REQUESTS (I.E., EXCLUDING UNSOLICITED OFFERS) ARE ROUGHLY COMPARABLE :U.S. OFFER INCLUDING LESS THAN FORMULA CUTS COVERS \$83 MILLION, WHILE BRAZILIAN OFFER COVERS \$81 MILLION. THE OBVIOUS GAPING DISPARITY IS ON THE AGRICULTURAL SIDE, EXAGGERATED BY THE TRADE FIGURES FOR SOLUBLE COFFEE; BEYOND THAT ITEM, THE U.S. IS MAKING OFFERS ON AN ADDITIONAL 9 ITEMS COVERING \$72 MILLION IN TRADE (NOT RESPONDING TO 13 OTHER REQUESTS); WHEREAS BRAZIL HAS MADE 2 OFFERS COVERING A NEG-LIGIBLE AMOUNT, WHILE NOT RESPONDING TO 23 OTHER REQUESTS BY US WITH A TOTAL TRADE COVERAGE-- PRESUMABLY BECAUSE OF CURRENT RESTRICTIONS--OF ONLY \$6 MILLION.

E. WE ASSESS PROSPECTS OF MAINTAINING MANY CURRENT U.S. AGRICULTURAL OFFERS, PARTICULARLY ON CONCEN-LIMITED OFFICIAL USE

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TRATED ORANGE JUICE, TO BE POOR, THUS LIKELY
NARROWING THE NEGOTIATING GAP. HOWEVER, U.S.

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LEVERAGE WITH ITS INDUSTRIAL OFFER IS LIMITED
(BRAZIL FIRST SUPPLIER ON ONLY \$44 MILLION).
PROSPECTS FOR MEANINGFUL IMPROVEMENT OF OUR OVERALL
OFFER IN RESPONSE TO BRAZILIAN REQUESTS ARE FAVOR-
ABLE ONLY FOR SOME AGRICULTURAL PRODUCTS--DOMESTIC
SENSITIVITIES ARE VERY STRONG ON BRAZILIAN
INDUSTRIAL REQUEST ITEMS WE HAVE NOT OFFERED. ALL
OF THIS LEAVES U.S. WITH A WEAK HAND BUT LARGE
AMBITIONS.

10. ACTION REQUESTED : WE WILL NEED NEW GUIDANCE BY
SEPTEMBER 1 FOR BILATERAL SESSION TO BE HELD UPON
BOTAFOGO'S RETURN TO GENEVA AT ABOUT THAT TIME. IN THE
LIGHT OF THE ABOVE, WE REQUEST THAT WASHINGTON RE-
EXAMINE THE BALANCE OF OFFERS AND REQUESTS, TAKING INTO
ACCOUNT THE QUALITY OF OFFERS WE HAVE ALREADY BEEN

WILLING TO ACCEPT IN ARTICLE XXVIII NEGOTIATION (E.G.,
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CEILING BINDINGS AS HIGH AS 55); THE FACT THAT MANY
PRIORITY MTN REQUESTS HAVE BEEN SHIFTED TO THE ARTICLE
XXVIII NEGOTIATIONS; AND THE QUALITATIVE ASPECTS OF THE
U.S. OFFER (POINTS A AND C OF PREVIOUS PARA). IT IS CLEAR
THAT OUR NEGOTIATING HAND IS STRENGTHENED IF WE CAN
MAINTAIN AND EVEN IMPROVE OUR AGRICULTURAL OFFER. IF NOT,
HOWEVER, WE SHOULD ALTERNATIVELY BE ABLE TO OBTAIN
QUALITY CONCESSIONS (TARIFF BINDINGS OF 30 AND BELOW,
WITH A COMMITMENT TO BE SURCHARGE FREE) ON PRODUCTS WITH
A TRADE COVERAGE APPROXIMATELY EQUAL TO THE ORIGINAL
BRAZILIAN OFFER OF ABOUT \$80 MILLION (RATHER THAN THE
NEARLY \$250 MILLION WE HAVE REQUESTED), OR PERHAPS A
HIGHER FIGURE IF WE ACCEPT MORE LOWER-QUALITY CONCESSIONS.

11. DRAFTED BY HARTZELL. MCDONALD

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Message Attributes

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Draft Date: 09 aug 1978
Decaption Date: 01 jan 1960
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Secure: OPEN
Status: NATIVE
Subject: STATUS OF U.S./BRAZIL TARIFF NEGOTIATIONS
TAGS: ETRD, BR, MTN
To: STATE
Type: TE
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